

COLORADO DEPARTMENT OF HEALTH CARE POLICY AND FINANCING; FY 08-09 BUDGET REQUEST

| Schedule 13 Change Request for FY 08-09 Budget Request Cycle | | | | | | | | | | | |
|---|-------|--|---|-------------------------------------|--|-----------------------------|--|-----------------------------------|---------------------------------|---|---|
| Request Title: | | Decision Item FY 08-09 <input checked="" type="checkbox"/> | Base Reduction Item FY 08-09 <input type="checkbox"/> | | Supplemental FY 07-08 <input type="checkbox"/> | | Budget Request Amendment FY 08-09 <input type="checkbox"/> | | | | |
| Department: | | Health Care Policy and Financing | | | Dept. Approval by: <i>John Bartholomew</i> | | Date: November 1, 2007 | | | | |
| Priority Number: | | DI - 5 | | | OSPBA Approval: <i>John Bartholomew</i> | | Date: 10/23/07 for 11/1/07 | | | | |
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| | Fund | Prior-Year Actual FY 06-07 | Appropriation FY 07-08 | Supplemental Request FY 07-08 | Total Revised Request FY 07-08 | Base Request FY 08-09 | Decision/ Base Reduction FY 08-09 | November 1 Request FY 08-09 | Budget Amendment FY 08-09 | Total Revised Request FY 08-09 | Change from Base (Column 5) FY 09-10 |
| Total of All Line Items | Total | 26,018,831 | 22,306,209 | 0 | 22,306,209 | 22,817,549 | 313,010 | 23,130,559 | 0 | 23,130,559 | 313,010 |
| | FTE | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | GF | 6,204,550 | 5,265,858 | 0 | 5,265,858 | 5,228,266 | 75,905 | 5,304,171 | 0 | 5,304,171 | 75,905 |
| | GFE | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | CF | 0 | 0 | 0 | 368,971 | 1,303,749 | 0 | 1,303,749 | 0 | 1,303,749 | 0 |
| | CFE | 596,657 | 1,075,301 | 0 | 706,330 | 610,809 | 3,287 | 614,096 | 0 | 614,096 | 3,287 |
| | FF | 19,217,624 | 15,965,050 | 0 | 15,965,050 | 15,674,725 | 233,818 | 15,908,543 | 0 | 15,908,543 | 233,818 |
| (1) Executive Director's Office, Medicaid Management Information Services Contract | Total | 26,018,831 | 22,306,209 | 0 | 22,306,209 | 22,817,549 | 313,010 | 23,130,559 | 0 | 23,130,559 | 313,010 |
| | FTE | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | GF | 6,204,550 | 5,265,858 | 0 | 5,265,858 | 5,228,266 | 75,905 | 5,304,171 | 0 | 5,304,171 | 75,905 |
| | GFE | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | CF | 0 | 0 | 0 | 368,971 | 1,303,749 | 0 | 1,303,749 | 0 | 1,303,749 | 0 |
| | CFE | 596,657 | 1,075,301 | 0 | 706,330 | 610,809 | 3,287 | 614,096 | 0 | 614,096 | 3,287 |
| | FF | 19,217,624 | 15,965,050 | 0 | 15,965,050 | 15,674,725 | 233,818 | 15,908,543 | 0 | 15,908,543 | 233,818 |
| Letternote revised text: \$3,287 shall be from the Children's Basic Health Plan Trust Fund 11G. Cash Fund name/number, Federal Fund Grant name: FF: Title XIX, Title XXI, CFE: Children's Basic Health Plan Trust Fund 11G IT Request: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Request Affects Other Departments: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> If Yes, List Other Departments Here: | | | | | | | | | | | |

CHANGE REQUEST for FY 08-09 BUDGET REQUEST CYCLE

| | |
|-----------------------|----------------------------------|
| Department: | Health Care Policy and Financing |
| Priority Number: | DI-5 |
| Change Request Title: | MMIS Fixed Price Increase |

SELECT ONE (click on box):

- ☒ Decision Item FY 08-09
☐ Base Reduction Item FY 08-09
☐ Supplemental Request FY 07-08
☐ Budget Request Amendment FY 08-09

SELECT ONE (click on box):

Supplemental or Budget Request Amendment Criterion:

- ☒ Not a Supplemental or Budget Request Amendment
☐ An emergency
☐ A technical error which has a substantial effect on the operation of the program
☐ New data resulting in substantial changes in funding needs
☐ Unforeseen contingency such as a significant workload change

Short Summary of Request:

This request is for \$313,010 as an increase to fixed price contract for the second year of the recently reprocured Medicaid Management Information System operation's contract from July 2007. This amount represents the negotiated cost of living increase for administrative functions performed by the Department's fiscal agent, Affiliated Computer Services, Inc.

Background and Appropriation History:

The Medicaid Management Information System is nationally recognized as an automated claims, capitation processing and reporting system. In Colorado, the Medicaid Management Information System processes or adjudicates claims and capitations based on edits that determine payment or payment denial and performs prior authorization reviews for certain medical services and pharmacy prescriptions. Warrants are produced by the State based on the information electronically transmitted from the Medicaid Management Information System.

Beginning March 1, 2004, a portion of the Medicaid Management Information System contract was converted to a fixed price contract. This move toward a fixed price contract

was the result of three managed care organizations leaving the Medicaid market in FY 02-03 and the subsequent increase in claims processing for moving these clients into a fee-for-service environment. By moving to a fixed price contract, the Department was able to contain costs related to claims processing, prior authorization reviews, and some administrative functions. Remaining functions provided by the contractor, such as pharmacy prior authorization reviews, development costs, and postage that were more difficult to predict, were excluded from fixed price and paid on actual expenditures instead.

When the 2006 reprocurement process occurred, the request for proposals submitted to the public specified that the Department wanted to continue the fixed price arrangement and to expand the functions covered. As a result of this procurement, on July 1, 2007, the Medicaid Management Information System fixed price contract now covers:

- Base operations, including administrative costs
- Regular Medicaid claims processing
- Children's Basic Health Plan capitation payments processing
- Breast and Cervical Cancer Prevention and Treatment claims processing
- Nurse Home Visitor claims processing
- Autism claims processing and Autism prior authorization reviews
- Orthodontia prior authorization reviews
- Old Age Pension State Medical Program claims processing
- School Based Health claims processing
- Health Care Expansion population claims processing and disk maintenance
- Health Care Expansion population pharmacy prior authorization reviews
- Drug Rebate and Analysis and Management System (DRAMS)
- Regular Medicaid pharmacy prior authorization reviews

The only items that still remain outside of fixed price therefore include development costs for changes to implement programs that may evolve from unknown future legislation and

postage costs because the United States Post Office makes its own decisions about future postage increases.

During the bidding process to the request for proposals, the fiscal agent provided bids for FY 07-08, FY 08-09, and FY 09-10. After the incumbent fiscal agent was reselected, the Department entered into negotiations with the fiscal agent to finalize the finer points of the contract. Part of these negotiations included annual cost-of-living increases for administration costs borne by the contractor. Prior to the recent reprocurement process, the fixed price agreement with Affiliated Computer Services, Inc. has always had a cost-of-living increase included. The table below outlines the last three years of fixed price in the prior contract and the net increases for cost-of-living adjustments.

| Fiscal Year | Fixed Price Amount | Percent Increase |
|-------------|--------------------|------------------|
| FY 04-05 | \$20,037,478 | N/A |
| FY 05-06 | \$20,782,913 | 3.7% |
| FY 06-07 | \$21,422,235 | 3.1% |

General Description of Request:

Per negotiations for the FY 08-09 fixed price amount, the Department agreed to \$21,107,511 for all services now covered under the fixed price. This amount is an increase of \$313,010 over the FY 07-08 fixed price amount. While the increase would allow the fiscal agent to cover increases in their internal operating expenditures occurring during FY 08-09, it is not directly associated with any increases in responsibility or claims volume. A similar increase for FY 09-10, equal to \$293,895 over the FY 08-09 fixed price, was agreed in the contract, and the amount is mentioned in this discussion for information purposes.

Benchmarking

The percentage of increase requested in this Decision Item above the FY 07-08 fixed price agreement is equal to 1.5% of the total fixed price contract from FY 07-08 (\$313,010 divided by \$20,794,501). The above percentage, when compared against the forecasted

Colorado inflation rates listed in the June 2007 Revenue Forecast, page 16, issued by the Office of State Planning and Budgeting, shows that this amount is well below anticipated inflation for calendar years 2008, 2009 and 2010. A similar comparison can be made for the FY 09-10 fixed price increase of 1.4% (\$293,895 divided by \$21,107,511). The following table compares the requested percent increases to these anticipated inflation rates for the next three calendar years.

| Fiscal / Calendar Year | Requested Increase / Projected Inflation |
|-------------------------------|---|
| FY 08-09 | 1.5% |
| FY 09-10 (Information Only) | 1.4% |
| CY 2008 | 2.8% |
| CY 2009 | 2.9% |
| CY 2010 | 3.0% |

Additionally, the requested fixed price increase as a percent of the total fixed price agreement in FY 08-09 and FY 09-10 is substantially less than the same step increases for fixed price in prior fiscal years which assumed fewer responsibilities. As mentioned above in the Background and Appropriation History section, the negotiated fixed price increase from FY 04-05 to FY 05-06 was 3.7%, and from FY 05-06 to FY 06-07 was 3.1%.

Caseload, Utilization, and Inflation

When the Department switched to a fixed price contract for much of the fiscal agent's administrative responsibilities, it broke the direct link between caseload, utilization and processing costs. Prior to fixed price, increases in caseload brought about increases in claims volume and costs for claims processing. Conversely, since fixed price, the fiscal agent has assumed the risk of operating the Medicaid Management Information System regardless of fluctuations in caseload or utilization, with no change to reimbursement for administrative functions. Therefore, this request cannot be evaluated against the slowing growth or recent declines in Medicaid caseload. In fact, per the June 2007 "*Colorado Medicaid Program Fiscal Agent Report*" produced by the Department's Information

Technology Division, it is apparent that claims volume over the last twelve months has actually increased when compared to the same period last year, even though recent Medicaid caseload levels have been declining. In June 2006 (four week period), the number of accepted claim transactions was 563,676. For the same four week period in June 2007, the number of accepted claim transactions equaled 769,313. This is an increase of 36.5% over the twelve month period.

Consequences if Not Funded:

Claims processing would need to stop six days before the end of the fiscal year to avoid needing to expend \$313,010. Consider the total requested fixed price amount of \$21,107,511 for FY 08-09 divided by 365 days. This yields an average daily rate of claims processing costs of \$57,829. Dividing the requested increase amount of \$313,010 by the average daily rate of \$57,829 equates to 5.4 days. Given the average weekly claims processing cycle in FY 06-07 generated \$52,397,648, a stoppage of claims processing for six days in FY 08-09 would push a similar amount of reimbursement to FY 09-10 and would disrupt cash flow patterns for medical providers. Additionally, if prior authorization reviews needed to cease during those six days of stoppage, clients awaiting authorization for prescription drugs would need to be provided with 3-day emergency supplies until the next fiscal year rather than a normal full prescription. This would require clients to make additional trips to receive their medications and would require the State to pay additional dispensing fees for filling these small supplies.

Calculations for Request:

| Summary of Request FY 08-09 | Total Funds | General Fund | Cash Funds Exempt | Federal Funds |
|---|-------------|--------------|----------------------|---------------|
| Medicaid Management Information System Contract [matches Column 6 and 10 on Schedule 13] | \$313,010 | \$75,905 | \$3,287 | \$233,818 |

| Table A: Funding Splits Between Medicaid and Children's Basic Health Plan for FY 08-09 | | | | | |
|---|-------------------------|--------------------|---------------------|--------------------------|----------------------|
| Program Splits | Total Percentage | Total Costs | General Fund | Cash Funds Exempt | Federal Funds |
| Total Costs | 100% | \$313,010 | \$75,905 | \$3,287 | \$233,818 |
| Medicaid Costs | 97% | | 25% | 0% | 75% |
| | | \$303,620 | \$75,905 | \$0 | \$227,715 |
| Children's Basic Health Plan Costs | 3% | | 0% | 35% | 65% |
| | | \$9,390 | \$0 | \$3,287 | \$6,103 |

Assumptions for Calculations:

The Department assumes that the requested increase for Medicaid would be funded with 75% federal funds participation for regular operations of the Medicaid Management Information System. The 75% federal funds participation is applied to the 97% Medicaid portion of the total funding for the request.

For this request, the Children's Basic Health Plan contribution to the total costs is assumed to be 3%. Historically, this percentage has been determined by the ratio of capitations paid for the Children's Basic Health Plan in the Medicaid Management Information System compared to the total forecasts of claims and capitations paid. Federal financial participation for Title XXI, the Children's Basic Health Plan, is 65%.

Impact on Other Government Agencies:

No impacts are known for other State government agencies.

Cost Benefit Analysis:

The following analysis will quantify the cost and benefits.

| | |
|----------------|---|
| Cost | \$313,010 in FY 08-09 |
| Benefit | No delay in provider payments (estimated to equal roughly \$52 million) or prior authorization reviews for services or prescription drugs |
| Benefit | Requested increase is fiscally conservative as the cost-of-living adjustment is nearly half of projected Consumer Price Index |
| Benefit | Continues the fixed price agreement which places risk back onto the contractor if changes in caseload arise due to unforeseen economic or demographic changes |

Based on the above analysis, the requested increase brings about the greatest benefit by insuring that the Medicaid Management Information System continues to operate the entire fiscal year so that provider payments can be always timely and so clients needs would also always be timely met.

Statutory and Federal Authority:

25.5-4-204 (3) (b), C.R.S. (2007) *The executive director of the state department shall develop and implement an automated system through which medical assistance claims and payment and eligibility determinations or other related transactions may be processed. The system shall provide for the use of automated electronic technologies. The automated system may be implemented in phases if deemed necessary by the executive director. The automated system shall be implemented only after the executive director determines that: (b) Adequate financing is available to facilitate the implementation and maintenance of the system. Financing may include, but is not limited to, federal funds, appropriations from the general fund, provider transactions fees, or any other financing mechanisms which the state department may impose, and grants or contributions from public or private entities.*

§1903 (a) of the Social Security Act [42 U.S.C. 1396b] (a) *...the Secretary...shall pay to each State which has a plan approved under this title...(3) an amount equal to – (B) 75 per centum of so much of sums expended during such quarter as attributable to the operation of system (whether such systems are operated directly by the State or by another person under a contract with the State... which are approved by the Secretary...*

Performance Measures:

The Medicaid Management Information System is the Department's only automated claims processing system. Without it, the Department would require significantly greater resources and time to ensure that providers receive accurate payment for services rendered to Medicaid and Children's Basic Health Plan clients. As such, any Performance Measure that includes expansion of Medicaid or Children's Basic Health Plan clients would only increase this need for additional resources and would delay the payment process even further due to the additional volume. Therefore, without the automated claims processing system, it is anticipated that a greater number of audit findings would show improper payments. Given the above, this Change Request is supportive of the following Performance Measures:

- Increase the number of clients served through targeted, integrated care management programs.
- Increase the number of children served through a dedicated medical home service delivery model.
- Expand coverage in the Child Health Plan Plus program.